



May 14, 2008

Mr. Bruce Mordhorst, Director
Department of Child Support Services
Mendocino County
107 South State Street
Ukiah, CA 95482

Dear Mr. Mordhorst:

Final Report—Agreed-Upon Procedures, Mendocino County Department of Child Support Services

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its Agreed-Upon Procedures Engagement of Mendocino County Department of Child Support Services' (County) fiscal year 2005-06 Local Child Support Agency Administrative Expense Claim Schedules and Certifications. This engagement was performed under an interagency agreement between the California Department of Child Support Services (Department) and Finance.

The *Findings* section of this report provides instances of the County's non-compliance with applicable federal and state codes and regulations. The findings pertain to under-reported interest income, unallowed claimed expenses, and internal control weaknesses. As noted in the *Other Matters Outside Agreed-Upon Procedures* section, the County is not reconciling undistributed trust fund balances reported in CASES with balances shown in its general ledger. In addition, the County has not followed procedures to resolve the disposition of undistributed collections and stale dated checks from collections tracked outside the CASES system. Recommendations, if any, will be provided by the Department to the County.

The County's response and the County of Mendocino Auditor-Controller's response have been incorporated into this final report.

We appreciate the County's assistance and cooperation with our evaluation. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Robert L. Scott, Supervisor, at (916) 322-2985.

Sincerely,

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Ms. Meredith Ford, Auditor-Controller, Mendocino County
- Ms. Barbara Owens, Manager, Office of Audits and Compliance Branch, California
Department of Child Support Services
Ms. Linda Adams, Chief, Financial Planning Branch, California Department of Child Support
Services
Ms. Mary Ann Miller, Assistant Director, Office of Executive Programs, California
Department of Child Support Services

AGREED-UPON PROCEDURES

Mendocino County Department of Child Support Services Child Support Enforcement Program Fiscal Year 2005-06 Certifications

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES

Mr. Bruce Mordhorst, Director
Department of Child Support Services
Mendocino County
107 South State Street
Ukiah, CA 95482

The Department of Finance, Office of State Audits and Evaluations (Finance), performed the procedures enumerated below which were agreed to by the California Department of Child Support Services (Department). The procedures were to evaluate the Mendocino County Department of Child Support Services' (County) fiscal year 2005-06 Local Child Support Agency Administrative Expense Claim Schedules and Certifications (CS 356). Finance also evaluated whether the certifications were prepared in accordance with applicable federal and state codes and regulations.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States and pursuant to *Standards for Attestation Engagements* issued by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, Finance makes no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed and Results of Those Procedures

Allowable Costs

From the sample selected, determine whether amounts reported on the CS 356 were allowable costs under: (a) Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for Catalog of Federal Domestic Assistance Number 93.563, (b) OMB Circular A-87, and (c) other applicable federal and state codes and regulations. A sample of claimed expenses was selected for each of the following CS 356 line item categories: (A) personnel services expenses, (B) operating and total direct services contract expenses, (C) electronic data processing (EDP) expenses, (D) laboratory expenses, and (E) health insurance and performance incentive expenses.

A. Personnel services expenses

- A sample of 8 staff (23 percent) was selected from the four quarters of 2005-06 to evaluate personnel services expenses. This sample included EDP staff.

- The payroll expenditures recorded on the CS 356 were traced to the general ledger, payroll registers, timesheets, and Memorandum of Understanding. The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

B. Operating and total direct services contract expenses

- A sample of \$221,193 (31 percent) out of \$703,842 of total claimed operating and direct service contract expenses, which included, space, utilities, janitorial services, and payments to vendors and other County departments, was selected for evaluation.
- Transactions were traced to invoices, agreements, vendor activity reports, and other pertinent documents to determine if the expenditures were program related, properly supported, and paid during the certification period.

The expenses selected for evaluation complied with applicable federal and state codes and regulations except for the following reportable issues:

- The County used program funds in the amount of \$4,560 for interior plant maintenance which is an unallowable expense.
- The County used program funds in the amount of \$1,580 to purchase bottled water for employee personal use which is an unallowable expense.

See Finding 2 in the *Findings* section of this report.

C. EDP expenses

- A sample of 29 percent of non-staff EDP expenditures was selected for evaluation.
- Transactions were traced to invoices, and other pertinent documents, to determine whether the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations

D. Laboratory expenses

- A sample of \$1,595 (25 percent) out of \$6,380 of total laboratory expenditures claimed was selected for evaluation.
- Laboratory expenditures were traced and agreed to invoices and vendor activity reports to determine if the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations except for the following reportable issue:

- The County did not enter into service contracts for laboratory services as required. Therefore, the validity and accuracy of these expenditures could not be evaluated.

See Finding 4 in the *Findings* section of this report.

E. Health Insurance and Performance Incentives

Health Insurance and Performance Incentive expenses were not claimed on the CS 356 for fiscal year 2005-06. Therefore, this procedure did not apply.

Abatelements

With the exception of the federal and state allocation advances and operating transfers in, all other interest and program income is required to be abated and reported as such on the CS 356. The following procedures were performed to determine whether interest and program income were properly abated:

- All interest and program revenue were identified.
- A sample of each type of revenue was examined to determine whether the correct amounts were reported as abatements on the CS 356.
- The methodology of the allocation of interest was reviewed.

A. Interest Income is earned on operating fund advances and Child Support Trust Fund balances. The County invests idle fund cash balances in a secured, diversified portfolio. Interest is computed based on an average daily cash balance and is distributed to participating funds on a quarterly basis. The completion of the above procedures provided the following information:

- Interest income is apportioned quarterly to the County.
- Interest income was abated on the CS 356 as required by federal and state codes and regulations.

The interest income selected for evaluation complied with applicable federal and state codes and regulations except for the following reportable issue:

- An estimated \$8,536 in interest income was not allocated to the County from undistributed/abandoned collections and stale dated checks for fiscal year 2005-06. Therefore, abatements were underreported by an equal amount.

See Finding 1 in the *Findings* section of this report.

B. No other income was found for the County child support services program.

Excess Funds

The County child support services fund balances were identified and reviewed. The County has reconciling procedures in place to account for actual costs claimed on the CS 356 to funds that were advanced.

The County's child support services program fund balances complied with applicable federal and state codes and regulations.

Internal Control

A limited review of the County's internal control over the CS 356 claim process was performed. Based on assessments performed during fieldwork, the following areas were reviewed in detail: (A) interest income apportionment, (B) personnel and payroll, (C) cash receipts and disbursements, (D) purchasing, (E) fixed assets, and (F) fund balance.

To understand the internal control of the County the following procedures were performed:

- Inquiries of County staff were conducted to determine the procedures related to interest income apportionment, personnel, receipt of cash, disbursement of checks, and purchasing.
- The single audits for fiscal year 2005-06 were reviewed to determine whether internal control weaknesses were identified by other auditors.
- Interest apportionment computations were recalculated to verify accuracy.
- Equipment listings were analyzed to assess for completeness and accuracy.
- Fund balances were analyzed to determine whether the balances appeared excessive.

The results of the procedures performed identified the following:

A. Interest income apportionment

- Interest earnings are reported on a quarterly basis by Mendocino County's treasurer-tax collector.
- Interest income is apportioned based on the percentage of the weighted average daily balance to the total cash balance for the entire interest bearing account.

The procedures performed identified the absence of a control to credit the child support program for interest income apportionable to undistributed/abandoned collections and stale dated checks.

See Finding 1 in the *Findings* section of this report.

B. Personnel and payroll

The procedures performed identified the following strengths:

- Employee benefits are governed by Memorandum of Understandings between Mendocino County and the respective employee bargaining groups.
- The County's human resources department processes payroll information.
- The County auditor and controller's office processes and issues payroll warrants.

The procedures performed did not identify any internal control weaknesses related to personnel or payroll.

C. Fixed assets

The County performs an annual equipment physical inventory and tracks equipment. The procedures performed did not identify any internal control weaknesses related to fixed assets.


D. Fund balance

The procedures performed did not identify any internal control weaknesses related to fund balance.

Finance was not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had additional procedures been performed, other matters other than those disclosed in the *Matters Outside Agreed-Upon Procedures* section of this report might have come to our attention that would

have been reported to the Department. Any recommendations will be provided to the County by the Department.

This report is intended solely for the information and use of the Department and the County, and is not intended to be and should not be used by anyone other than the specified parties. To the extent claimed by the County and allowed by law, confidential or proprietary information provided to the auditors will not be released to the public. However, this report is a matter of public record and its distribution is not limited.



Janet I Rosman, CPA,
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

December 26, 2007

STAFF:

Susan M. Botkin, CGFM
Manager

Robert Scott, CPA
Supervisor

Georgia Folkes
Ramon Juarez
Billy Struble

MATTERS OUTSIDE AGREED UPON PROCEDURES

Statements for Attestation Engagement Number 12, established by the American Institute of Certified Public Accountants, requires the reporting of matters identified by the Department of Finance, Office of State Audits and Evaluations (Finance) that significantly contradict the subject matter being reported. Identification relates to those matters Finance became aware of during the course of applying the agreed-upon procedures, but which may not directly relate to the specific procedure(s) being performed. The following matter not directly related to specific procedures was identified:

Potential Loss of Accountability of Child Support Trust Fund Balances

The County does not perform reconciliations between the Monthly Report of Collections and Distributions (CS 34) report and the County general ledger. The County general ledger shows a Child Support Trust Fund balance totaling \$251,067. However, the undistributed collections balances shown on the CS 34 totals \$108,931. The difference of \$142,136 represents a potential loss of accountability of child support cash balances by the County.

Included in the undistributed collections reported on the CS 34 are "Unidentified Collections" equal to \$28,632 and "Stale dated/Uncashed checks being held" equal to \$9,244, for a total of \$37,876. The County states this total undistributed balance is older than three years and originates from its legacy system. Therefore, the related child support case is not in the CASES system.

The County states it does not have the resources to research these balances to forward these child support funds to the custodial parent, or return the funds to the non-custodial parent, or escheat the funds and report as abatements. Therefore, the County is not taking action to resolve \$37,876 in abandon collections from its legacy system to either distribute, returned, or abate aged and undistributed Child Support Trust Fund collections.

The agreed-upon procedures performed disclosed the following reportable issues. Any recommendations will be provided to the Mendocino County Department of Child Support Services (County) by the California Department of Child Support Services (Department).

FINDING 1 The County Under Reported Abatements

Condition: The County underreported interest income attributable to Child Support Trust Fund balances. The County uses two funds to account for undistributed child support collections. The two funds total \$251,067 in cash as of June 30, 2006. These funds do not show any interest income was credited for the fiscal year 2005-06. However, County procedures, and federal and state codes and regulations, require idle child support cash to be deposited in an interest bearing account.

On average, the County realized a 3.4 percent return on pooled investments. Therefore, the Child Support Trust Fund balances should have been allocated estimated interest income equal to \$8,536. The County underreported abatements on the CS 356 by an equal amount.

Criteria: Local Child Support Agency Letter 02-36 states that child support funds are all monies received by local child support agencies to administer the child support program, and must be deposited into interest-bearing accounts. All interest earned on Child Support Enforcement program funds must be reported on the CS 356 as an abatement.

FINDING 2 Program Funds Used for Unallowable Operating Expenses

Condition: The County expended \$6,140 for unallowable items as follows:

- \$4,560 was expended for interior plant maintenance.
- \$1,580 was expended for bottled water for employee use.

Criteria: OMB Circular A-87, Attachment A, Section C.1.a states that to be allowable under federal awards costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. OMB Circular A-87, Attachment B, Section 20 states that costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

FINDING 3 Internal Control Weakness for the CS 356 Preparation

Condition: The County does not have written procedures for the preparation of the CS 356. In addition, the County places sole reliance on a key person for the CS 356 preparation. This puts the County at risk of reporting errors when the key person is reassigned or leaves County employment.

Criteria: OMB Circular A-133 Compliance Supplement, Part 6, Internal Controls states that control activities are the policies and procedures that help ensure that management's directives are carried out. This includes operating policies and procedures that are clearly written and communicated.

FINDING 4 No Contracts for Laboratory Testing Services

Condition: The County did not obtain contracts for laboratory testing services. Therefore, the validity and accuracy of these expenditures could not be evaluated.

Criteria: DCSS Plan of Cooperation, Section III, Local Agency Program Operations and Performance, Contracting (2) states when delegating or contracting out Title IV-D activities to other County departments, public agencies, or private vendors, the Local Agency shall retain ultimate responsibility and accountability for such services under written cooperative agreements or contracts approved by the Local Agency Director.

COUNTY'S RESPONSE



COUNTY OF MENDOCINO
DEPARTMENT OF
CHILD SUPPORT SERVICES

March 18, 2008

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Sir or Madam:

RE: Response to Draft Report – Agreed Upon Procedures – Mendocino County,
Department of Child Support Services

Thank you for the opportunity to respond to this report concerning the financial operations of the Mendocino County Department of Child Support Services. I will only be responding to the Findings Section.

Finding 1 – The County Under Reported Abatements

The Department of Child Support has no response to this issue. The County Auditor-Controller will need to respond.

Finding 2 – Program Funds Used for Unallowable Operating Expenses

\$4,560 was expended for interior plant maintenance. We contract with a local firm to replace and maintain the 35 or so plants that hang approximately 10 feet above the floor of the office. The plants were part of the state approved remodel in 2002. Since the plants are owned by the Department, someone needs to maintain them. The Department determined that contracting out with an expert is money well spent due to the location of the plants and the possibility of severe workers' compensation injuries for employees to climb a ladder to try to water and take care of the plants. The Department assumed the State Department of Child Support Services was well aware of this issue.

\$1,580 was expended for bottled water for employee use. This cost is for two water dispensers, one upstairs and one in the basement. The offices at 107 South State Street in Ukiah does not have a water fountain of any kind, therefore employees, and the general public, would have to use tap water from the restrooms or the sink in the employees

lounge area. The County allows the payment of bottled water from several departments for sanitation purposes; we are just following County policy.

Finding 3 – Internal Control Weakness for the CS 356 Preparation

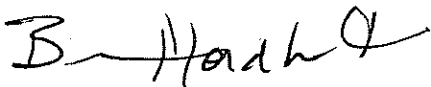
The Department agrees with this finding, in fact, the person that did prepare the 356 resigned and moved to Nevada. Written procedure for the preparation of the CS 356 are completed. Due to funding restrictions and staffing shortages, the Department cannot guarantee a viable backup person for the preparation of the report. The Director and the Auditor-Controller do sign off on the report though, as required.

Finding 4 – No Contract for Laboratory Testing Services

The Department agrees with this finding. We currently use LabCorp of America. They took over the DNA testing for Long Beach Genetics, which the Department had used for several years. Though we have an agreed price for the work we do not currently have a contract with them. The Department will contract with them in the near future.

Thank you for the opportunity to comment on the findings of the report. Please let me know if you have any questions.

Sincerely

A handwritten signature in black ink, appearing to read "B. Mordhorst", with a stylized flourish at the end.

Bruce Mordhorst
Director

COPY: Meredith Ford, Auditor-Controller
Melanie Rafanan, Account Specialist



COUNTY OF MENDOCINO
MEREDITH J. FORD
AUDITOR - CONTROLLER
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April 16, 2008

Attn: David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento CA 95814

Re: Draft Report, County of Mendocino, 2005/06

Dear Mr. Botelho:

In response to Finding #1 of the draft report concerning the financial operations of the Mendocino County Department of Child Support Services, I offer the following:

Finding 1: The County Under Reported Abatements

The Auditor-Controller was not made aware of the requirement for the child support payments to be held in an interest bearing account. The two accounts in which child support payments are held pending disbursement have been made interest bearing effective January 1, 2008.

Please feel free to contact me with any further questions or comments you may have.

Very truly yours,

Meredith Ford
Auditor-Controller
County of Mendocino

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations (Finance), reviewed the Mendocino County Department of Child Support Services' (County) and the Mendocino County Auditor—Controller's responses to the draft report.

The County concurred with Findings 1, 3, and 4. The County did not respond to the conditions reported in the "Matters Outside Agreed-Upon Procedures" section of the report. Below is our response to the following County's disagreement with Finding 2. All reported findings and conditions remain unchanged in the report.

FINDING 2 Program Funds Used for Unallowable Operating Expenses

The County stated its reason for expending \$4,560 for interior plant maintenance and \$1,580 for bottled water. However, it provided no argument showing the costs are necessary and reasonable for proper and efficient performance and administration of federal awards.

For the reason stated above, Finance's reported findings and conditions remain unchanged in the report.